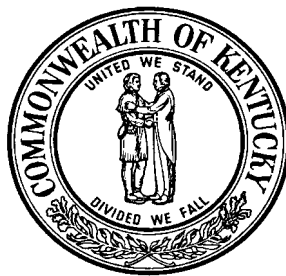


**REPORT OF THE AUDIT OF THE  
WASHINGTON COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2008**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

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FRANKFORT, KY 40601-1817  
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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable John A. Settles, Washington County Judge/Executive

Members of the Washington County Fiscal Court

The enclosed report prepared by Cotton and Allen, P.S.C., Certified Public Accountants, presents the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Washington County, Kentucky, as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements.

We engaged Cotton and Allen, P.S.C. to perform the audit of these financial statements. We worked closely with the firm during our report review process; Cotton and Allen, P.S.C. evaluated the Washington County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen

Auditor of Public Accounts

Enclosure





## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE WASHINGTON COUNTY FISCAL COURT**

**June 30, 2008**

Cotton and Allen, P.S.C. has completed the audit of the Washington County Fiscal Court for the fiscal year ended June 30, 2008. We have issued unqualified opinions on the governmental activities, each major governmental fund, and the aggregate remaining fund information of Washington County, Kentucky.

#### **Financial Condition:**

The fiscal court had unrestricted net assets of \$1,389,352 in its governmental activities as of June 30, 2008, with total net assets of \$5,559,623. The fiscal court had total debt principal as of June 30, 2008 of \$12,249,946 with \$663,710 due within the next year.

#### **Financial Condition:**

2008-01    The Fiscal Court Lacks Adequate Segregation of Duties Over Receipts

#### **Deposits:**

The fiscal court deposits were insured and collateralized by bank securities.



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To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable John A. Settles, Washington County Judge/Executive

Members of the Washington County Fiscal Court

### Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Washington County, Kentucky, as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Washington County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Washington County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Washington County, Kentucky, as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The Budgetary Comparison Information on pages 29 through 31 is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Budgetary Comparison Information. However, we did not audit the information and express no opinion on it.

To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Jonathan Miller, Secretary  
Finance and Administration Cabinet  
Honorable John A. Settles, Washington County Judge/Executive  
Members of the Washington County Fiscal Court

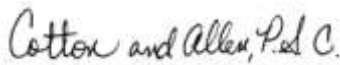
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Washington County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements on pages 32 through 35, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated August 20, 2009 on our consideration of Washington County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

2008-01 The Fiscal Court Lacks Adequate Segregation of Duties Over Receipts

Respectively submitted,



Cotton and Allen, P.S.C.  
Certified Public Accountants and Advisors

August 20, 2009

WASHINGTON COUNTY OFFICIALS

For The Year Ended June 30, 2008

**Fiscal Court Members:**

John A. Settles	County Judge/Executive
Hal B. Goode	Magistrate
Billy Riney, Jr.	Magistrate
Benjamin Settles	Magistrate
Greg Simms	Magistrate
Morris Sweazy	Magistrate
Terry Tingle	Magistrate

**Other Elected Officials:**

Hamilton B. Simms	County Attorney
Steve Hardin	Jailer
Glenn Black	County Clerk
George Graves	Circuit Court Clerk
Tommy Bartley	Sheriff
Margaret Platt	Property Valuation Administrator
Freddie Carey	Coroner

**Appointed Personnel:**

Carla D. Hardin	County Treasurer
Carla D. Hardin	Occupational Tax Collector
Sheila D. Smith	Finance Officer
Fred Armstrong	911 Administrator

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**WASHINGTON COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2008**



**WASHINGTON COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2008**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 6,254,217
Notes Receivable	27,760
Total Current Assets	<u>6,281,977</u>
Noncurrent Assets:	
Notes Receivable	66,236
Capital Assets - Net of Accumulated Depreciation	
Land and Land Improvements	59,266
Construction in Progress	6,476,125
Historical Treasures	8,000
Buildings and Improvements	450,086
Machinery and Equipment	751,638
Office Furniture and Equipment	61,864
Vehicles	391,913
Infrastructure	3,262,464
Total Noncurrent Assets	<u>11,527,592</u>
Total Assets	<u>17,809,569</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Financing Obligations Payable	223,710
Revenue Bonds Payable	440,000
Total Current Liabilities	<u>663,710</u>
Noncurrent Liabilities:	
Financing Obligations Payable	66,236
Revenue Bonds Payable	11,520,000
Total Noncurrent Liabilities	<u>11,586,236</u>
Total Liabilities	<u>12,249,946</u>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	4,170,271
Unrestricted	1,389,352
Total Net Assets	<u><u>\$ 5,559,623</u></u>

The accompanying notes are an integral part of the financial statements.

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**WASHINGTON COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2008**

**WASHINGTON COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2008**

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues Received</b>		
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>
<b>Primary Government:</b>				
Governmental Activities:				
General Government	\$ 1,523,244	\$ 29,503	\$ 963,934	
Protection to Persons and Property	1,310,984	592,184	83,837	68,435
General Health and Sanitation	380,606	100,418		
Social Services	26,339			
Recreation and Culture	30,858			
Transportation Facilities and Services	2,998			
Bus Services	27,710			
Roads	691,435		1,435,257	
Debt Service	556,983			
Capital Projects	283,887			
Total Governmental Activities	4,835,044	722,105	2,483,028	68,435
Total Primary Government	\$ 4,835,044	\$ 722,105	\$ 2,483,028	\$ 68,435

**General Revenues:**

Taxes:

Real Property Taxes  
Insurance Premium Taxes  
Occupational Taxes  
Motor Vehicle Taxes  
Other Taxes

Excess Fees

Interest

Miscellaneous Revenues

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated - Note 10)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

WASHINGTON COUNTY  
 STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS  
 For The Year Ended June 30, 2008  
 (Continued)

Net (Expenses)  
 Revenues and  
Changes in Net Assets

Governmental  
 Activities

\$	(529,807)
	(566,528)
	(280,188)
	(26,339)
	(30,858)
	(2,998)
	(27,710)
	743,822
	(556,983)
	<u>(283,887)</u>
	<u>(1,561,476)</u>
\$	<u>(1,561,476)</u>

	338,786
	605,327
	787,651
	49,460
	149,748
	54,420
	308,150
	<u>293,465</u>
	<u>2,587,007</u>
	1,025,531
	<u>4,534,092</u>
\$	<u><u>5,559,623</u></u>

The accompanying notes are an integral part of the financial statements.

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**WASHINGTON COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2008**



**WASHINGTON COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2008**

	<b>General Fund</b>	<b>Road And Bridge Fund</b>	<b>Justice Center Corporation Fund</b>	<b>Non- Major Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 996,622	\$ 233,703	\$ 4,864,865	\$ 159,027	\$ 6,254,217
Total Assets	<u>996,622</u>	<u>233,703</u>	<u>4,864,865</u>	<u>159,027</u>	<u>6,254,217</u>
<b>FUND BALANCES</b>					
Reserved for:					
Encumbrances	9,212	1,472			10,684
Unreserved:					
General Fund	987,410				987,410
Special Revenue Funds		232,231		159,027	391,258
Capital Projects Fund			4,864,865		4,864,865
Total Fund Balances	<u>\$ 996,622</u>	<u>\$ 233,703</u>	<u>\$ 4,864,865</u>	<u>\$ 159,027</u>	<u>\$ 6,254,217</u>

**Reconciliation of the Balance Sheet - Governmental Funds To The Statement Of Net Assets**

Total Fund Balances	\$ 6,254,217
Amounts Reported for Governmental Activities in the Statement of Net Assets Are Different Because:	
Notes Receivable Used in Governmental Activities Are Not Financial Resources and Therefore Are Not Reported in the Funds	93,996
Capital Assets Used in Governmental Activities Are Not Financial Resources and Therefore Are Not Reported in the Funds.	13,348,087
Accumulated Depreciation	(1,886,731)
Long-Term Debt is Not Due and Payable in the Current Period and, Therefore, is Not Reported in the Funds.	
Financing Obligations	(289,946)
Revenue Bonds	<u>(11,960,000)</u>
Net Assets Of Governmental Activities	<u>\$ 5,559,623</u>

The accompanying notes are an integral part of the financial statements

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**WASHINGTON COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2008**



**WASHINGTON COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2008**

	<b>General Fund</b>	<b>Road And Bridge Fund</b>	<b>Justice Center Corporation Fund</b>	<b>Non- Major Funds</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>					
Taxes	\$ 1,930,973	\$	\$	\$	\$ 1,930,973
Excess Fees	54,420				54,420
Licenses and Permits	27,716				27,716
Intergovernmental	485,453	1,363,543	453,732	250,522	2,553,250
Charges for Services	592,034			150	592,184
Miscellaneous	216,174	10,400			226,574
Interest	19,885	721	287,544		308,150
Total Revenues	<u>3,326,655</u>	<u>1,374,664</u>	<u>741,276</u>	<u>250,672</u>	<u>5,693,267</u>
<b>EXPENDITURES</b>					
General Government	796,678				796,678
Protection to Persons and Property	1,002,072			253,606	1,255,678
General Health and Sanitation	576,227				576,227
Social Services	19,282				19,282
Recreation and Culture	28,768	2,090			30,858
Transportation Facilities and Services		2,998			2,998
Bus Services	27,710				27,710
Roads		1,282,097		67,367	1,349,464
Debt Service	83,210	193,701	465,970		742,881
Capital Projects		283,887	5,282,148		5,566,035
Administration	558,321	118,387	2,578	26,086	705,372
Total Expenditures	<u>3,092,268</u>	<u>1,883,160</u>	<u>5,750,696</u>	<u>347,059</u>	<u>11,073,183</u>
Excess (Deficiency) of Revenues Over Expenditures Before Transfers and Financing Sources (Uses)	<u>234,387</u>	<u>(508,496)</u>	<u>(5,009,420)</u>	<u>(96,387)</u>	<u>(5,379,916)</u>
<b>Other Financing Sources (Uses)</b>					
Financing Obligation Proceeds		195,950			195,950
Proceeds from Sale of Capital Assets		167,308			167,308
Transfers From Other Funds				200,000	200,000
Transfers To Other Funds	(200,000)				(200,000)
Total Other Financing Sources (Uses)	<u>(200,000)</u>	<u>363,258</u>		<u>200,000</u>	<u>363,258</u>
Net Change in Fund Balances	34,387	(145,238)	(5,009,420)	103,613	(5,016,658)
Fund Balances - Beginning (Restated - Note 10)	962,235	378,941	9,874,285	55,414	11,270,875
Fund Balances - Ending	<u>\$ 996,622</u>	<u>\$ 233,703</u>	<u>\$ 4,864,865</u>	<u>\$ 159,027</u>	<u>\$ 6,254,217</u>

The accompanying notes are an integral part of the financial statements.

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**WASHINGTON COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2008**



**WASHINGTON COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2008**

Net Change in Fund Balances - Total Governmental Funds	\$ (5,016,658)
Amounts Reported for Governmental Activities in the Statement of Activities Are Different Because:	
Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities the Cost of Those Assets Is Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense.	
Capital Outlay	6,743,847
Depreciation Expense	(527,824)
Net Book Value of Capital Assets Disposed	(163,782)
Payment on Receivables Provides for Current Financial Resources to Governmental Funds, while at the Government-wide Level, a Reduction of the Receivable Occurs. These Transactions Have No Effect on Net Assets.	(76,535)
The issuance of debt (e.g. bonds, leases) provides current financial resources to governmental funds, while debt principal payments are expensed in the Governmental Funds as a use of current financial resources. These transactions, however, have no effect on net assets.	
Financing Obligation Proceeds	(195,950)
Financing Obligations Principal Payments	<u>262,433</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 1,025,531</u></u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES  
TO THE FINANCIAL STATEMENTS**

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**WASHINGTON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2008**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The county presents its government wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet – Governmental Funds. Property tax receivables, accounts payable, compensated absences and other accruals, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet – Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and their corresponding depreciation expense is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Washington County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. The county has no discretely presented component units.

**Blended Component Unit**

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

**WASHINGTON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**B. Reporting Entity (Continued)**

Washington County, Kentucky Justice Center Corporation

The Washington County, Kentucky Justice Center Corporation (Corporation) is a legally separate organization that provides its services exclusively to the primary government. This component unit cannot be sued in its own name without recourse to the Washington County Fiscal Court, which appoints a voting majority consisting of the Fiscal Court members. The Fiscal Court is able to impose its will on the Corporation. The Corporation is created solely for the benefit of the Fiscal Court per KRS 58.180 to act as the agent in the acquisition and financing of any public project. The Fiscal Court has access to the Corporation's resources, is legally obligated to finance the debts of or provide financial support to the Corporation. The Corporation is financially accountable to the Fiscal Court. This component unit is blended within Washington County's financial statements as the Justice Center Corporation Fund.

**C. Washington County Elected Officials**

Kentucky law provides for election of the officials below from the geographic area constituting Washington County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Washington County, Kentucky.

Additional – Washington County Elected Officers

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**D. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Washington County does not have any business-type activities. The government-wide financial statements are reported using the economic resources measurement focus and modified cash basis of accounting.

**WASHINGTON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally, and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) September 15, due at discount November 1, due at face value December 31, delinquent January 1, following the assessment and subject to lien and sale February 1, following the delinquency date.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are a least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the financial statements.

**Governmental Funds**

All governmental fund statements are reported using the current financial resources measurement focus and the modified cash basis of accounting.

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

**WASHINGTON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

Road and Bridge Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Justice Center Corporation Fund – The Justice Center Corporation Fund accounts for the activities of the Washington County, Kentucky Justice Center Corporation, a blended component unit of the county. The Washington County, Kentucky Justice Center Corporation issued debt to construct the justice center. The Department for Local Government does not require the fiscal court to report or budget these funds.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, State Grant Fund, and Jail Fund.

Special Revenue Funds

The Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund, and State Grant Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Capital Projects Fund

Justice Center Corporation Fund is a capital projects fund. Capital projects funds are used to account for the financial resources to be used for the acquisition or construction of major capital facilities.

**E. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**F. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

**WASHINGTON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

**F. Capital Assets (Continued)**

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 20,000	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 2,500	3-25
Office Furniture	\$ 2,500	2-10
Vehicles	\$ 10,000	3-25
Infrastructure	\$ 15,000	10-50

**G. Long-term Obligations**

In the government-wide financial statements and proprietary funds in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental funds recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

**H. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

**WASHINGTON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**I. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**J. Related Organization and Jointly Governed Organization**

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, Washington County Library is considered a related organization of the Washington County Fiscal Court.

A regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that created the organization, but that is not a joint venture because the participants do not retain an on going financial interest or responsibility. Based on these criteria, the Springfield-Washington County Economic Development Authority is considered a jointly governed organization of the Washington County Fiscal Court.

**Note 2. Deposits**

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

**Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2008, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**WASHINGTON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**  
**(Continued)**

**Note 3. Capital Assets**

Capital asset activity for the year ended June 30, 2008 was as follows:

	Reporting Entity		
	Beginning Balance (Restated - Note 10)	Increases	Decreases
<b>Primary Government:</b>			
<b><u>Governmental Activities:</u></b>			
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 59,266	\$	\$ 59,266
Historical Treasures	8,000		8,000
Construction In Progress	1,193,977	5,282,148	
Total Capital Assets Not Being Depreciated	1,261,243	5,282,148	6,476,125
Capital Assets, Being Depreciated:			
Buildings and Improvements	845,124	73,166	918,290
Machinery and Equipment	1,007,487	185,807	(79,386)
Office Furniture and Equipment	9,719	244,495	(185,900)
Vehicles	849,863		849,863
Infrastructure	2,896,090	958,231	3,854,321
Total Capital Assets Being Depreciated	5,608,283	1,461,699	(265,286)
Less Accumulated Depreciation For:			
Buildings and Improvements	(442,324)	(25,880)	(468,204)
Machinery and Equipment	(327,328)	(114,328)	79,386
Office Furniture and Equipment	(4,506)	(1,944)	(6,450)
Vehicles	(372,739)	(107,329)	22,118
Infrastructure	(313,514)	(278,343)	(591,857)
Total Accumulated Depreciation	(1,460,411)	(527,824)	101,504
Total Capital Assets, Being Depreciated, Net	4,147,872	933,875	(163,782)
Governmental Activities Capital Assets, Net	<u>\$ 5,409,115</u>	<u>\$ 6,216,023</u>	<u>\$ (163,782)</u>

Depreciation expense was charged to functions of the primary government as follows:

<b><u>Governmental Activities:</u></b>	
General Government	\$ 51,075
Protection to Persons and Property	77,800
General Health and Sanitation	25,937
Social Services	7,057
Roads, Including Depreciation of General Infrastructure Assets	<u>365,955</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 527,824</u>

**WASHINGTON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**  
**(Continued)**

**Note 4. Long-term Debt**

**A. Mackville Fire Department Fire Truck-Financing Obligation and Note Receivable**

The Washington County Fiscal Court has five lease agreements that are outstanding as of June 30, 2008. Items A., B., and C. are entered into on behalf of other entities. For item A. below, the other entity makes the payments directly to the trustee. For items B and C below, the Fiscal Court makes the payments to the trustee and is simultaneously reimbursed by the other entities. The remaining lease agreements are for assets purchased and used by the Fiscal Court

On November 26, 1997, the fiscal court on behalf of the Mackville Fire Department entered into an agreement with the Kentucky Area Development Districts Financing Trust (KADD) in the amount of \$75,000 at an interest rate of 6.20% for the acquisition of a fire truck. On November 12, 2003, KADD revised the terms of this agreement. The revised agreement increased the outstanding principal due by \$4,000, from \$68,000 to \$72,000 and lowered the effective interest rate to 3.16%. This revision created debt service savings of \$4,767 over the remaining term of the obligation. The Mackville Fire Department makes the principal and interest payments to the Bank of New York (the trustee). The principal balance was paid in full during the year ended June 30, 2008.

**B. Washington County Fire Department Fire Truck-Financing Obligation and Note Receivable**

On February 15, 2005, the fiscal court on behalf of the Washington County Fire Department entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$100,000 at an interest rate of 3.05% for the acquisition of a fire truck. The term is for 54 months with the balance to be paid in full on July 20, 2009. During the fiscal year, the county received \$21,620 in principal and interest from the Washington County Fire Department. The county then paid the debt service payments to U.S. Bank (the trustee). The rate in the lease was fixed through the use of an interest rate swap between the trustee and a third party financial institution. The trustee has the right to charge any costs associated with the interest rate swap to Washington County through additional future rentals. The debt was fully paid in July 2009 and no additional rentals were charged to the county.

Principal payment requirements and scheduled interest for the remaining term of the agreement, excluding any additional rentals resulting from the interest rate swap, are as follows:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest
2009	\$ 20,000	\$ 859
2010	20,000	67
Totals	<u>\$ 40,000</u>	<u>\$ 926</u>



**WASHINGTON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**C. Mackville Fire Department Rescue Vehicle-Financing Obligation and Note Receivable**

On October 20, 2004, the fiscal court on behalf of the Mackville Fire Department entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$80,000 at a variable interest rate (4.271% at June 30, 2008) for the acquisition of a rescue truck. The term is for ten years with the balance to be paid in full on November 20, 2014. During the fiscal year, the county received \$10,427 in principal and interest from the Mackville Fire Department. The county then paid the debt service payments to U.S. Bank (the trustee). Principal payment requirements and scheduled interest for the term of the agreement are as follows:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest
2009	\$ 7,760	\$ 1,797
2010	7,991	1,521
2011	8,230	1,236
2012	8,475	945
2013	8,728	643
2014-2015	12,812	378
Totals	<u>\$ 53,996</u>	<u>\$ 6,520</u>

**D. Mac Dump Trucks**

On June 20, 2008, the fiscal court entered into a lease agreement with the Kentucky Area Development Districts Financing Trust (KADD) in the amount of \$195,950 at a variable interest rate (3.948% at June 30, 2008) for the acquisition of two Mack Dump Trucks. The term was originally for twelve months with the balance to be paid in full on June 20, 2009. On May 1, 2009, the term was extended to December 20, 2009. Principal payment requirements and scheduled interest for the remaining term of the agreement are as follows:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest
2009	\$ 195,950	\$ 11,869
Totals	<u>\$ 195,950</u>	<u>\$ 11,869</u>

**WASHINGTON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**E. First Mortgage Revenue Bonds, Series 2007 (Justice Center Project)**

On April 1, 2007, the Washington County, Kentucky Justice Center Corporation issued First Mortgage Revenue Bonds, Series 2007, in the amount of \$11,960,000 for the purpose of constructing a judicial center. Principal payments are due October 1, beginning in 2008, and interest, which varies from 3.50% to 4.125%, is payable semiannually on October 1 and April 1, beginning October 1, 2007. As of June 30, 2008, the principal balance was \$11,960,000. Future principal and interest payments are as follows:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest
2009	\$ 440,000	\$ 458,270
2010	460,000	442,520
2011	475,000	426,158
2012	490,000	409,270
2013	510,000	391,770
2014-2018	2,830,000	1,664,198
2019-2023	3,445,000	1,054,030
2024-2027	3,310,000	288,303
Totals	<u>\$ 11,960,000</u>	<u>\$ 5,134,519</u>

On April 1, 2007, Washington County entered into a lease agreement with the Administrative Office of the Courts (AOC), which states that AOC agrees to pay 100% of the debt service requirements. The lease does not require Washington County to make any rental payments toward the project; however, Washington County is obligated to provide operation, maintenance, insurance and repair of the project.

The bonds are secured by a foreclosable first mortgage lien on the property and an assignment by the Washington County, Kentucky Justice Center Corporation of its rights, title and interest in the lease with AOC.

**F. Changes In Long-term Liabilities**

Long-term liability activity for the year ended June 30, 2008, was as follows:

	Beginning Balance (Restated - Note 10)	Additions	Reductions	Ending Balance	Due Within One Year
<b>Primary Government:</b>					
<u>Governmental Activities:</u>					
Financing Obligations	\$ 356,429	\$ 195,950	\$ 262,433	\$ 289,946	\$ 223,710
Revenue Bonds	<u>11,960,000</u>			<u>11,960,000</u>	<u>440,000</u>
Governmental Activities					
Long-term Liabilities	<u>\$ 12,316,429</u>	<u>\$ 195,950</u>	<u>\$ 262,433</u>	<u>\$ 12,249,946</u>	<u>\$ 663,710</u>

**WASHINGTON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**  
**(Continued)**

**Note 5. Interest On Long-term Debt and Financing Obligations**

Debt Service on the Statement of Activities includes \$479,055 in interest on financing obligations.

**Note 6. Employee Retirement System**

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.17 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 33.87 percent. These actuarially determined rates are established and amended by the Board of Trustees of CERS and were equal to the required contribution for the year. The contribution requirements and the amounts contributed to CERS were \$167,376, \$212,711, and \$274,616, respectively for the years ended June 30, 2006, 2007, and 2008.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, KY 40601-6124 or by telephone at (502) 564-4646.

**Note 7. Deferred Compensation**

Washington County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employee's Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, Kentucky, 40601-8862, or by telephone at (502) 573-7925.

**WASHINGTON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**  
**(Continued)**

**Note 8. Insurance**

For the fiscal year ended June 30, 2008, Washington County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**Note 9. Construction/Demolition Debris Landfill**

Washington County has a less-than one-acre construction/demolition debris landfill that opened on July 7, 2003. Closure of the landfill is undetermined as of June 30, 2008. Washington County is not required to set up a fund for post closure costs. The closure requirements are that the landfill shall be covered with a soil cap two feet thick, within thirty days of ceasing to accept waste and grass seed must be sowed.

**Note 10. Prior Period Adjustments**

The beginning net asset balance for governmental activities have been restated due to cash, capital assets, and revenue bonds payable related to the Washington County, Kentucky Justice Center Corporation, a blended component unit, previously not reported. In addition, an adjustment was necessary to reflect a payment made on a financing obligation which was not previously reported. The following is a reconciliation of net assets as of June 30, 2007, as previously reported to the restated net assets balance for the same period. The Justice Center Corporation Fund reflects the activity of the blended component unit previously not reported, as reflected in the increase in fund balance below.

	<b>Governmental Activities</b>	<b>Fund Balance</b>
Beginning balance	\$ 5,428,338	\$ 1,396,590
Adjustments:		
Financing Obligation Payment Unrecorded	15,846	
Washington County, Kentucky Justice Center Corporation		
Cash balance	9,874,286	9,874,286
Construction in progress	1,175,623	
Bonds payable	(11,960,000)	
Restated beginning balance	<u>\$ 4,534,093</u>	<u>\$ 11,270,876</u>

**WASHINGTON COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2008**



**WASHINGTON COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2008**

	<b>GENERAL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes	\$ 1,767,300	\$ 1,767,300	\$ 1,930,973	\$ 163,673
Excess Fees	15,100	15,100	54,420	39,320
Licenses and Permits	28,140	28,140	27,716	(424)
Intergovernmental Revenue	742,120	742,120	485,453	(256,667)
Charges for Services	500,000	500,000	592,034	92,034
Miscellaneous	383,392	383,392	165,565	(217,827)
Interest	9,650	9,650	19,885	10,235
Total Revenues	<u>3,445,702</u>	<u>3,445,702</u>	<u>3,276,046</u>	<u>(169,656)</u>
<b>EXPENDITURES</b>				
General Government	776,992	904,586	796,678	107,908
Protection to Persons and Property	1,221,629	1,268,573	1,002,072	266,501
General Health and Sanitation	706,070	731,555	576,227	155,328
Social Services	27,000	28,000	19,282	8,718
Recreation and Culture	86,575	86,575	28,768	57,807
Bus Services	25,000	27,711	27,710	1
Debt Services	30,892	32,992	32,601	391
Capital Projects	55,000	55,000		55,000
Administration	855,673	981,693	558,321	423,372
Total Expenditures	<u>3,784,831</u>	<u>4,116,685</u>	<u>3,041,659</u>	<u>1,075,026</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(339,129)</u>	<u>(670,983)</u>	<u>234,387</u>	<u>905,370</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers To Other Funds	<u>(287,471)</u>	<u>(287,471)</u>	<u>(200,000)</u>	<u>87,471</u>
Total Other Financing Sources (Uses)	<u>(287,471)</u>	<u>(287,471)</u>	<u>(200,000)</u>	<u>87,471</u>
Net Changes in Fund Balance	(626,600)	(958,454)	34,387	992,841
Fund Balance - Beginning	<u>626,600</u>	<u>958,454</u>	<u>962,235</u>	<u>3,781</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 996,622</u>	<u>\$ 996,622</u>

WASHINGTON COUNTY  
 BUDGETARY COMPARISON SCHEDULES  
 Required Supplementary Information - Modified Cash Basis  
 For The Year Ended June 30, 2008  
 (Continued)

ROAD AND BRIDGE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 1,276,000	\$ 1,382,000	\$ 1,363,543	\$ (18,457)
Miscellaneous	2,000	8,970	10,400	1,430
Interest	1,525	1,525	721	(804)
Total Revenues	1,279,525	1,392,495	1,374,664	(17,831)
<b>EXPENDITURES</b>				
Recreation and Culture	8,550	8,550	2,090	6,460
Transportation Facilities and Services	20,100	20,100	2,998	17,102
Roads	1,104,428	1,389,461	1,282,097	107,364
Debt Service	195,700	196,191	193,701	2,490
Capital Projects	185,000	126,000	283,887	(157,887)
Administration	162,297	191,234	118,387	72,847
Total Expenditures	1,676,075	1,931,536	1,883,160	48,376
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(396,550)	(539,041)	(508,496)	30,545
<b>OTHER FINANCING SOURCES (USES)</b>				
Lease Proceeds			195,950	195,950
Proceeds Sale of Capital Assets	160,000	160,000	167,308	7,308
Transfers From Other Funds				
Total Other Financing Sources (Uses)	160,000	160,000	363,258	203,258
Net Changes in Fund Balance	(236,550)	(379,041)	(145,238)	233,803
Fund Balance - Beginning	236,550	379,041	378,941	(100)
Fund Balance - Ending	\$ 0	\$ 0	\$ 233,703	\$ 233,703



**WASHINGTON COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2008**

**Note 1. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**Note 2. General Fund Reconciliation**

**Revenues**

Total Revenues-Budgetary Basis	\$ 3,276,046
Debt payments made directly to KADD by Mackville Fire Department	<u>50,609</u>
Total Revenues - Modified Cash Basis	<u><u>\$ 3,326,655</u></u>

**Expenditures**

Total Expenditures-Budgetary Basis	\$ 3,041,659
Debt Service Service Payments to KADD	<u>50,609</u>
Total Expenditures - Modified Cash Basis	<u><u>\$ 3,092,268</u></u>

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**WASHINGTON COUNTY  
COMBINING BALANCE SHEET -  
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS  
Other Supplementary Information**

**June 30, 2008**



WASHINGTON COUNTY  
 COMBINING BALANCE SHEET -  
 NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS  
 Other Supplementary Information

June 30, 2008

	<b>Jail Fund</b>	<b>Local Government Economic Assistance Fund</b>	<b>State Grant Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 4,082	\$ 50,945	\$ 104,000	\$ 159,027
Total Assets	<u>4,082</u>	<u>50,945</u>	<u>104,000</u>	<u>159,027</u>
<b>FUND BALANCES</b>				
Unreserved:				
Special Revenue Funds	<u>4,082</u>	<u>50,945</u>	<u>104,000</u>	<u>159,027</u>
Total Fund Balances	<u>\$ 4,082</u>	<u>\$ 50,945</u>	<u>\$ 104,000</u>	<u>\$ 159,027</u>

The accompanying notes are an integral part of the financial statements

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**WASHINGTON COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**  
**For The Year Ended June 30, 2008**





**WASHINGTON COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**For The Year Ended June 30, 2008**

	<b>Jail Fund</b>	<b>Local Government Economic Assistance Fund</b>	<b>State Grant Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>REVENUES</b>				
Intergovernmental	\$ 74,808	\$ 71,714	\$ 104,000	\$ 250,522
Charge for Services	150			150
Total Revenues	<u>74,958</u>	<u>71,714</u>	<u>104,000</u>	<u>250,672</u>
<b>EXPENDITURES</b>				
Protection to Persons and Property	253,606			253,606
Roads		67,367		67,367
Administration	26,086			26,086
Total Expenditures	<u>279,692</u>	<u>67,367</u>		<u>347,059</u>
Excess (deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(204,734)</u>	<u>4,347</u>	<u>104,000</u>	<u>(96,387)</u>
<b>Other Financing Sources</b>				
Transfers From Other Funds	200,000			200,000
Total Other Financing Sources	<u>200,000</u>			<u>200,000</u>
Net Change in Fund Balances	(4,734)	4,347	104,000	103,613
Fund Balances - Beginning	8,816	46,598		55,414
Fund Balances - Ending	<u>\$ 4,082</u>	<u>\$ 50,945</u>	<u>\$ 104,000</u>	<u>\$ 159,027</u>

The accompanying notes are an integral part of the financial statements

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**





The Honorable John Settles, Washington County Judge/Executive  
Members of the Washington County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Washington County, Kentucky, as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements and have issued our report thereon dated August 20, 2009. Washington County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Washington County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Washington County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Washington County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting: 2008-01.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Washington County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Washington County Judge/Executive's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the County Judge/Executive's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Washington County Fiscal Court and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectively submitted,



Cotton and Allen, P.S.C.  
Certified Public Accountants and Advisors

August 20, 2009

**WASHINGTON COUNTY  
COMMENT AND RECOMMENDATION**

**For The Year Ended June 30, 2008**





**WASHINGTON COUNTY  
COMMENT AND RECOMMENDATION**

**Fiscal Year Ended June 30, 2008**

**INTERNAL CONTROL - SIGNIFICANT DEFICIENCY**

**2008-01    The Fiscal Court Lacks Adequate Segregation of Duties Over Receipts**

*Criteria:* The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the County's assets and ensure accurate financial reporting.

*Condition:* During our audit, we noted the Treasurer posts to the receipts ledger, prepares bank deposits, prepares bank reconciliations, and prepares financial reports.

*Cause:* The entity's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

*Effect or Potential Effect:* Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to the cash collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

*Recommendation:* We recommend the County continue to review their policies and procedures to identify ways in which segregation of duties could be improved. Specifically the following procedures could be implemented to strengthen the internal control process:

- An independent person should be responsible for opening the mail and listing all receipts. The employee opening the mail should keep a listing of all checks received for that day, detailing the date received, the check amount, who it is from, and what the check is for. This list should be agreed to the treasurer's receipts ledger and the bank deposit slip. The person should initial the listing to document their review in comparison to the receipts ledger and bank deposit slip.
- An independent person, such as the Judge/Executive should open bank statements and review them for unusual items, such as debit memos, and overdraft charges. The person should initial the bank statement to document their review.
- An independent person, such as the Judge/Executive, should review the treasurer's bank reconciliations for accuracy and timeliness. The person should initial the bank reconciliation to document their review.

*County Judge/Executive John Settles Response:* Office personnel will meet to determine possible separation of duties regarding financial matters. The limited number of staff makes it very difficult to separate all duties.



**CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

**WASHINGTON COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2008**

Appendix A



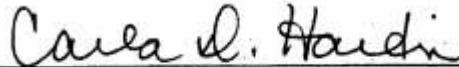
CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM  
WASHINGTON COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2008

The Washington County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



John A. Settles  
County Judge/Executive



Carla D. Hardin  
County Treasurer

